INTERIM GUIDANCE

DRAFT BLM MANUAL SECTION 3180 - UNITIZATION (EXPLORATORY)

NOTE TO USERS: The attached DRAFT BLM Manual Section 3180 is being issued as INTERIM GUIDANCE for those involved in administration of the oil and gas units program.

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.01 Purpose. Unit agreements embracing Federally-supervised leases including all or part of an oil and/or gas pool, field, or like area may be classified as either exploratory or enhanced recovery in nature. This Manual Section defines Bureau of Land Management (BLM) responsibilities concerning the review, approval, and supervision of operations for exploratory units involving Federal (except for the National Petroleum Reserve in Alaska) and Indian lands. Procedural guidance for the approval and administration of exploratory units is contained in Handbook H-3180-1.

.02 Objectives. Unitization provides for the exploration, development, and operation of a geologically defined area by a single operator so that drilling and production may proceed in the most efficient and economical manner.

.03 Authority.

A. 43 CFR 3180--Onshore Oil and Gas Unit Agreements--General.

B. 25 CFR 211, 212, 213, and 227.

.04 Responsibility.

A. State Director. Unless further delegated, the State Director is responsible for:

1. Designation of an area and/or lands as logically subject to exploration and/or development under a unit agreement.

2. Approval of executed unit agreement.

3. Approval of unit plan of development.

4. Approval of expansion/contraction of unit area.

5. Approval of amendment to an approved unit agreement.

6. Approval of a successor unit operator.

7. Approval of designation of agent or suboperator.

8. Approval of extension of time for drilling test wells.

9. Approval of request for the termination of a unit agreement where such request conforms to the procedures set forth in the unit agreement.

10. Paying well determination under an approved unit.

11. Establishment and/or revision of a participating area.

12. Concurrence with the operator's description of the lands automatically eliminated from a unit area under terms of the unit agreement.

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B. District Manager. Unless further delegated, the District Manager is responsible for:

1. Approval to drill wells on Federal and Indian lands within approved units in conformance with the terms of the plan or subsequently approved plans of development and operations, unless that responsibility is retained by the State Director.

2. Conducting inspections of unit operations.

3. Recommending revision of plans of development, additional drilling, and/or secondary recovery program.

4. Acceptance, for the record, of applications for State and fee wells within the unit and approval for "Unit Purposes Only."

5. Drainage determinations involving unitized lands.

6. Any or all of the responsibilities of the State Director, as delegated.

.05 References.

A. 43 CFR 3107.1, Extension by Drilling.

B. 43 CFR 3107.3-2, Segregation of Leases Committed in Part.

C. 43 CFR 3107.4, Extension by Elimination.

D. 43 CFR 3162.8, Confidentiality.

E. 43 CFR 3186.1, Model Onshore Unit Agreement for Unproven Areas.

F. Bureau of Indian Affairs - Order 551, Amendment 103, April 2, 1965.

G. BLM Manual Section 3160-1, Application for Permit to Drill and Subsequent Operations.

H. BLM Manual Section 3160-10, Suspension of Operations and/or Production.

I. Onshore Oil and Gas Order No. 1, Approval of Operations on Onshore Federal and Indian Oil and Gas Leases (Circular No. 2538).

J. Memorandum of Understanding Between the Bureau of Indian Affairs, the Bureau of Land Management, and the Minerals Management Service Regarding Working Relationships Affecting Mineral Lease Activities
(BLM MOU WO600-9111, effective 9/6/91).

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.06 Policy.

A. The guidelines and procedures outlined in this Manual Section apply generally to all unit agreements for unproven areas, but specifically to those agreements using the language shown in the form of agreement for unproven areas at 43 CFR 3186.1. Various forms of unit agreements have been approved over the years and, while many of the provisions have remained similar, important differences exist. For this reason, the individual agreement must always be consulted.

B. All involved parties must be familiar with the contents of the model unit agreement at 43 CFR 3186.1.

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.1 Unit Management. The Mineral Leasing Act, as amended, and the regulations issued thereunder provide that unit plans must be for the purpose of conserving the natural resources of the pool, field, or area involved and must be determined to be necessary or advisable in the public interest.

.11 Overview. A unit agreement is an agreement approved by the authorized officer of the BLM, submitted by an operator on behalf of the owners of oil and gas interests over a potential oil or gas reservoir who wish to unite with each other to facilitate the orderly and timely development of the oil and gas resources within the unit area. This consolidation of separate leasehold interests eliminates the need to drill protective wells along common boundaries between unitized leases and serves to maximize benefits through a continuing exploration and development program. The agreement designates one party as the operator to conduct all activities in the unit area and commits that party to diligently pursue an exploration program to develop the oil and gas potential of the area on behalf of all committed interests. Where Federal or Indian lands are to be committed to the unit agreement, approval by the Federal Government is required. Approval of the unit agreement does not, in itself, authorize any on-the-ground activities. All such activities are permitted on a case-by-case basis through the Application for Permit to Drill (APD) and Sundry Notice processes (see 43 CFR Part 3160 and the Oil and Gas Onshore Orders.) An approved unit agreement establishes certain performance obligations; but also offers Federal lessees the advantage of exemption of their committed leases from chargeability under the statutory acreage limitation on holdings, and affords an opportunity to earn extension of unitized leases (i.e., a lease fully or effectively committed to the unit agreement) beyond their primary term by discovery and/or production of unitized substances in "paying quantities" or by timely drilling operations on unitized lands. The law also provides for lease extensions, if applicable, when a lease is eliminated in its entirety from an approved plan. Where lands are not unitized, each individual lessee has the right to independently develop its own lease. Unitization serves the public interest in that it promotes the exploration of unproven acreage, and permits the BLM to exercise more effective control over drilling activity in a large area.

.12 Guidelines and Procedures. Each proposal to unitize Federally- supervised leases must be evaluated on its specific merits. Unitization involves a series of activities, many requiring Federal approval, from the designation of the area as logically subject to unitization to the ultimate termination of the unit agreement. Illustrations 1 and 2 depict the general flow and relationship of these activities, which may occur sequentially or concurrently within varying time frames.

A. Designation of Unit Area; Depth of Test Well. Following are general procedures for unit area designation. Detailed procedures for processing applications for unit area designation are provided in Handbook
H-3180-1.

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1. General Procedures. To initiate the formation of an exploratory unit, the unit proponent files an application formally requesting the authorized officer to (1) designate the proposed area as logically subject to exploration and development under a unit plan of operations; (2) approve the maximum depth and objective formation proposed for the initial test well(s) and/or development obligations (if the area contains a discovery but is not fully developed); and (3) approve the text of the proposed form of unit agreement (the model form of unit agreement for unproven areas set forth in 43 CFR 3186.1 is normally used, however, a modified form may be acceptable when justified. See 43 CFR 3181.1.) The application shall be accompanied by a map or diagram of the proposed area with land status identified and a report giving all available geological and geophysical information. If requested and appropriate, such information shall be treated as confidential in accordance with the provisions of 43 CFR 3162.8. All information on agreements under the Indian Mineral Development Act shall be considered proprietary and confidential, whether requested or not. After BLM completes its review, the applicant is advised, in writing, of the decision with respect to designation of the area, the specific form of agreement, and the drilling or development obligation. Copies of the approved designation letter are furnished to other appropriate BLM offices and to appropriate State and Federal agencies having jurisdiction over lands within the unit area. The application and all supporting information will be retained by the authorized officer. If the designated area contains unleased Federal or Indian lands, every effort should be made to offer the lands for lease. Whenever unleased lands within the designated area are managed by another Federal agency, that agency should be notified and encouraged to concur in offering such lands for lease. If, upon final approval, the unit contains unleased Federal lands, efforts should continue to lease the Federal acreage with a stipulation requiring joinder to the unit agreement prior to lease issuance. See Handbook H-3180-1, Section M, for more information on unleased Federal land in units.

2. Indian Lands. Preliminary concurrence is obtained from the appropriate Bureau of Indian Affairs (BIA) official (normally the Area Director) and the involved Indian tribe before the application for designation of a unit area containing Federal and Indian land is approved. Where a proposed unit area contains Indian lands but no Federal lands, the application for preliminary approval for unitization (designation), with the authorized officer's recommendation, is sent to the appropriate BIA office. The official designation letter to the proponent is signed by the BIA.

3. State Lands. Where State lands are involved, the designation letter should inform the proponent that appropriate State officials be notified prior to submitting the executed agreements to the authorized officer for final approval. Where authorized by State law, appropriate provisions may be made in the agreement accepting such laws to the extent that they are applicable to Federal/Indian unitized land, provided they do not adversely affect such lands or the execution of the authorized officer's responsibilities.

4. Exceptions. When the total Federal and/or Indian lands aggregate less than 10 percent of the unit area, close adherence to the model form of unit agreement for unproven areas (43 CFR 3186.1) and designation of the proposed area as logically subject to development under a unit plan of operations is not required. When a modified or non-Federal form of agreement is submitted, the authorized officer shall review it to determine its acceptability with respect to the participation of Federal/Indian lands. General guidance for the preliminary consideration of unit agreements that differ from the model Federal form can be found at 43 CFR 3181.1

5. Preliminary Conference. The use of a preliminary conference involving unit proponents and the authorized officer is encouraged. This step often facilitates the processing of an application for designation of a unit area, since it enables the authorized officer to advise the proponent of any specific requirements or obvious problems.

B. Approval of Executed Unit Agreement.

1. Approval. After the area has been designated as logically subject to unitization and the proponent has obtained sufficient joinders to the unit agreement and unit operating agreement to ensure effective control of operations within the unit area, the executed unit agreement may be approved by the authorized officer. Further guidelines and procedures for processing executed unit agreements received for final approval are contained in Handbook H-3180-1.

2. Exceptions. Units containing less than 10 percent Federal/Indian lands do not require designation under the usual procedures. Such units generally are not handled like units containing large percentages of Federal/Indian lands, in that an acceptable non-Federal form normally is used in lieu of the Federal form, and the unit operator often will not have requested and obtained the designation of the unit. In such event, the only Federal requirements for the agreement are listed on the approval page signed by the authorized officer. This kind of agreement usually is filed in its final executed form with the authorized officer on a "take-it-or-leave-it" basis, i.e., the area will likely be unitized with or without Federal/Indian participation. In such cases, the executed unit agreement is reviewed for general acceptability and, if acceptable, is then approved by the authorized officer. The authorized officer issues an appro val letter which assigns an agreement number and executes a certification-determination page. All Federal/Indian leases committed to an approved non-Federal form of unit agreement are subject to the segregation and extension provisions of the leasing regulations for Federal/Indian leases committed to any prescribed cooperative or unit plan. Even though the terms and provisions of a unit agreement on a non-Federal form may not be administered by the BLM, certain Federal regulations may be enforced if the Federal/Indian interest is receiving a production allocation. Unit development should be monitored for actions that could affect Federal/Indian lands.

C. Establishment and Revision of Participating Area. After a well capable of producing unitized substances in paying quantities (as defined under Section 9 of the model form of unit agreement, 43 CFR 3186.1) is completed, a participating area is then established in accordance with the "Participation After Discovery" section of the unit agreement (Section 11 of the model unit agreement). Any proposal for the establishment or revision of a participating area submitted for authorized officer approval must be accompanied by comprehensive engineering and geologic information which justifies the proposed definition or redefinition of lands entitled to be in the participating area. The only land that is to be included in a participating area is that land reasonably proven capable of producing unitized substances in paying quantities or, if so provided in the unit agreement, lands that otherwise are necessary for unit operations (most older unit agreements i.e., those approved prior to 1968, do not provide for including such additional lands.) Approval of the initial participating area causes the unit to convert to a producing status, and all subsequent unit wells and operations must conform to an approved plan of development and operations. Detailed procedures for establishing and revising participating areas are contained in Handbook H-3180-1.

D. Plan of Further Development and Operation. Section 10 of the model form of unit agreement for unproven areas (43 CFR 3186.1) requires that a plan of development and operations be filed for approval within 6 months after completion of a well capable of producing unitized substances in paying quantities. This plan should describe all anticipated unit operations for the next 6 to 12 months, including the drilling, completing, conversion, and production of unit wells, and other surface disturbing operations, and may be supplemented as necessary. Prior to the expiration of the initial or any subsequent plan of development and operations, a new plan covering the next period (usually the following calendar year) should be submitted for the authorized officer's approval. Plans of development and operation should be approved with a notation that the authorized officer's approval of specific operations must be obtained prior to commencement of such operations.

E. Contraction or Expansion of Unit Area--Automatic Elimination. Section 2 of the model form of unit agreement for unproven areas sets forth general requirements for the contraction or expansion of a unit area. That section states that the ". . . unit area shall when practicable be expanded to include therein any additional lands or shall be contracted to exclude lands whenever such expansion or contraction is deemed to be necessary or advisable . . . ." General procedures for contracting or expanding unit areas are contained in Handbook H-3180-1.

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1. Time Frame. The current model form of unit agreement for unproven areas (43 CFR 3186.1) includes automatic elimination provisions in Section 2(e). These provisions require that all legal subdivisions of unitized land, no parts of which are entitled to be in a participating area established under the unit, shall be automatically eliminated on the fifth anniversary of the effective date of the first established initial participating area, unless drilling operations are then in progress on unitized lands not entitled to participation. In the latter event, all committed lands (whether entitled to participation or not) shall remain subject to the unit agreement as long as diligent drilling operations are continued without more than 90 days elapsing between the completion of one such well and the commencement of the next. In any event, all lands that are not in a participating area and are not entitled to participate under applicable provisions of the agreement within 10 years after the effective date of establishment of the initial participating area are required to be eliminated at that point. A single extension of up to 2 years beyond the lO-year period may be granted for good reason by the authorized officer upon timely receipt of an application therefore which has been executed by parties owning sufficient interest in lands committed to the plan, as specified in the unit agreement.

2. Special Case. Section 2(e) of the unit agreement is designed primarily to fix a definite but reasonable time for the unit operator to complete exploration and development of the unit before the automatic elimination of nonparticipating lands. Some older unit agreements, mainly those approved before 1955, have no automatic elimination provisions. The elimination of nonproductive lands from such units may require amendment of the unit agreement.

F. Extensions of Time. There are certain provisions in the model form of exploratory unit agreement (43 CFR 3186.1) under which the term of the unit agreement (Section 20), the automatic elimination date (Section 2(e)), and the time within which to fulfill certain drilling obligations (Section 9) may be extended. A discussion of these provisions is included in Section II-K of Handbook H-3180-1.

G. Suspensions. Certain performance requirements under terms of the unit agreement and under terms of leases committed to the agreement may be suspended by the authorized officer. See Handbook H-3180-1, Section J, and Manual Section 3160-10 for a specific discussion of the conditions that may warrant a suspension and the effect of such suspensions on unit activities.

H. Termination. Most unit agreements provide for automatic or voluntary termination, however, it is necessary to review each specific agreement to determine the circumstances under which it may be terminated.

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I. Unit Operating Agreement. The unit operating agreement sets out the manner in which working interest owners will share the costs and benefits of unit development. Among the items addressed in this agreement are the cost of unit operations such as drilling, producing, and processing; what costs may be charged to a working interest owner joining the unit after operations have commenced; and how unitized production will be allocated if different from the allocation defined in the unit agreement. Since the Government holds a royalty interest but no working interest in unit production, the BLM does not approve terms and conditions of the operating agreement; however, joinders are reviewed to ensure that all committed working interests have ratified both agreements. Section 7 of the model unit agreement provides that, in the case of conflicts or inconsistencies between the unit and operating agreements, the unit agreement shall govern. Two copies of the unit operating agreement with joinders by working interest owners whose interests are to be considered as fully committed to the unit agreement, must be filed with the authorized officer prior to approval of the unit agreement.

J. Amendment of Approved Unit Agreement. A unit agreement may be amended when such action is justified by circumstances or events not previously anticipated. Amendment of a unit agreement is accomplished in much the same manner as the establishment of a unit agreement. A request for preliminary approval of the text of the proposed amendment with supporting data normally is submitted to the authorized officer. If the authorized officer approves the text of the proposed amendment, it is circulated for signature by committed interest owners. All parties committed to the unit agreement must sign or consent to the amendatory language before it may be approved by the authorized officer.

K. Designation of Agent or Suboperator. Whenever a party other than the unit operator files an application for permit to drill a well on unitized land, an acceptable Designation of Agent from the unit operator must also be submitted. This designation is for the drilling and completion of the well only. If the well is completed as one capable of producing unitized substances in paying quantities, either the unit operator will take over operation of the well or the designated agent will be named as successor unit operator. If the well is completed as a non-paying unit well, an agreement can be made which allows a party other than the unit operator to operate the well. Additional guidance on the Designation of Agent is provided in Handbook H-3180-1. The designation of a suboperator will generally not be accepted or approved unless warranted by special conditions or circumstances (see Handbook H-3180-1, Section II-W.)

L. Successor Unit Operator. Procedures for selecting a successor unit operator normally are included in the unit agreement (Section 6 of the model form, 43 CFR 3186.1) to provide orderly succession if the unit operator resigns or is removed. Generally, the succession of a new unit operator is accomplished through the authorized officer's approval of an instrument executed by or on behalf of the unit operator, the successor unit operator, and the owners of a specified percentage of the committed working interests. That instrument provides for the resignation of the unit operator, the acceptance of the duties and responsibilities of unit operator by the successor unit operator, and the approval of the new unit operator by owners of committed working interests pursuant to Section 6 of the unit agreement. The authorized officer shall accept a Designation of Successor Operator which has not been formally ratified by working interests, provided the successor operator certifies in writing that it has obtained the required working interest owner approvals. The authorized officer's written approval of such a designation will include a disclaimer indicating that the BLM has not verified that the required working interest owner consent has been obtained. Normally, if no successor unit operator is selected and qualified within a reasonable period of time, the authorized officer may declare the unit agreement terminated. See Handbook H-3180-1, Section II-X, for further procedural guidance regarding the designation of a successor unit operator.

M. Proprietary Data. Information on any pending applications submitted to the BLM, once filed, become a matter of public record and will not be held confidential unless the unit operator requests such information be treated as confidential in accordance with 43 CFR 3162.8. The authorized officer should inform the unit operator of the proper procedures for identifying confidential unit data and will determine that information to be held confidential. The operator's obligations to keep other participants advised of such activities and to provide information to participating parties upon request are usually spelled out in the unit operating agreement.

N. Bankrupt Unit Operator. A unit operator who declares bankruptcy may continue to operate the unit if he so desires. In most cases, the bankruptcy court will appoint a trustee who will be responsible for unit operations. BLM may accept this court-appointed agent to act on behalf of the unit operator.

O. Reporting Format for Unit Wells. The unit operator is responsible for submitting all required reports for paying unit wells. For non-paying unit wells, the unit operator or his delegated party shall be responsible for submitting said reports. Wells located on non-committed lands or lands automatically eliminated from the unit would be reported on a lease basis.

P. Case Recordation System (CRS). Mandatory action codes and formats for unit serial register pages have been established for oil and gas unit agreements. A unit serial page is created under the respective CRS number. Once a unit is designated, it will be entered into case recordation. Then, until the unit designation is withdrawn or the unit agreement is terminated, each major unit action will correspond to a required data element that must be entered into the CRS under the respective serial number for the unit or participating area. Instructions on how to enter this information can be found in Washington Office IM No. 89-104 (with changes 1 and 2) and Washington Office IM No. 91-37. For agreements approved prior to January 1, 1988, CRS numbers have been assigned for the purpose of entering the agreement and participating areas into CRS even though the CRS number is not the official BLM number for these unit agreements. Additional information on the numbering system for unit agreements involving the CRS can be found in Handbook H-3180-1, Illustration 3.

Q. Coordination.

1. BLM State Office. For adjudicative purposes, the State Office needs to have copies of various documents pertaining to unit-related proposals that are approved. The approving office should notify the leasing adjudication section, either by memorandum or copy of the approved document, of actions such as designation, final approval, expansion, contraction, termination, establishment/revision of participating areas, subsequent joinder that commits previously uncommitted tracts, and successor unit operator approval.

2. Minerals Management Service (MMS). There are a number of actions that occur with respect to unit agreements that are of concern to the MMS. Initially, if a unit proponent submits other than model form provisions pertaining to rental or royalty, the BLM will request MMS recommendations and MMS (RVSD) will provide its report within 20 working days of receipt of the request. Subsequent approvals, determinations and notices related to the production and allocation of unitized substances should be reported to the MMS to ensure the proper collection and distribution of revenues from affected lease accounts. The BLM's responsibilities for providing the specific information required by MMS are outlined in the Memorandum of Understanding between the Bureau of Indian Affairs, the Bureau of Land Management, and the Minerals Management Service Regarding Working Relationships Affecting Mineral Lease Activities (BLM MOU WO600-9111).

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R. Operations on Non-Federal Unitized Land. Control of individual well operations on State or fee lands subject to a Federally-approved unit agreement are primarily the responsibility of State regulatory agencies. However, the BLM retains certain responsibilities whenever unit operations on such land affect or may affect the Federal/Indian lands committed thereto, e.g., for the prevention of waste; the orderly and timely exploration and development of the unit area; and the proper handling, measurement, and disposition of production when Federal or Indian lands share in the production from a State or fee well.

1. BLM Involvement. In meeting BLM's responsibility to protect Federal/Indian lands from adverse effects of unit operations on non-jurisdictional lands, Bureau personnel will take only such actions as are necessary to:

a. Assure that complete information, including all well logs and test results are received for all operations conducted on such lands.

b. Ensure that plans of development provide for timely and efficient unit development.

c. Verify that all proposed operations are in conformity with the approved plan of development and in compliance with the terms of the unit agreement.

d. Ensure proper handling and accurate measurement of all production and proper disposal of all oil, gas, and water produced.

e. Prevent waste of unitized substances.

2. Agreement with State. In order to carry out the BLM's responsibilities, avoid duplication of effort with a State, and limit industry confusion as to who is in charge, the BLM State Office should work with its counterpart State regulatory agencies to define their respective responsibilities by establishing the scope and procedures for review and approval of actions and for inspections on lands committed to a unit plan. Once agreement is reached, a Notice to Lessees may be issued and/or a State supplemental Manual prepared, as necessary, to implement the agreement. Unit areas that contain small amounts of Federal/Indian land (generally less than 10 percent) usually are unitized using a non-Federal form and are subject to State supervision. Federal supervision in such units is normally maintained only over Federal/Indian leases. However, activities on non-jurisdictional lands in such a unit should be monitored and actions taken to assure that Federal/Indian interests and resources are protected. Plans of development under non-Federally supervised unit agreements will be accepted for the record, whether filed at the authorized officer's request or on the unit operator's motion.

S. Surface Use Plan. All initial and subsequent work resulting in surface disturbance of Federal/Indian lands must be done in accordance with an approved surface use plan. The information required on such surface use plans and the criteria for evaluating these plans to determine the potential environmental impacts are the same as those for operations on an individual lease, as described in Onshore Oil and Gas Order No. 1. For drilling and other operations requiring the approval of the authorized officer, a detailed plan that consists of a drilling/operating program and a surface use program should be submitted with the application for permit to drill. Subsequent or related operations that involve additional surface disturbance should have a surface use program incorporated into the approved plan of operations.

T. Indian Land. Area Directors of the Bureau of Indian Affairs have been delegated the authority to approve unit agreements involving Indian lands (BIA Order 551, Amendment 103, April 2, 1965). BLM approval is not required unless Federal lands are also involved. Accordingly, if no Federal lands are involved, the authorized officer does not approve the unit but recommends appropriate action to the Bureau of Indian Affairs. When Federal and Indian lands are involved, preliminary approval by the Area Director, BIA, is required prior to BLM designation of the area as logically subject to unitization and prior to final approval of the unit agreement. Additional guidance on the content of Indian land agreements and the procedures to be followed is provided in Handbook H-3180-1.

U. State Agencies. The control of specific operations on State and fee lands is the responsibility of the appropriate State regulatory agency. Some early versions of the model Federal form of unit agreement for unproven areas incorporate provisions that grant parallel authority to be exercised by State agencies, as appropriate. Generally, any provision that a State wishes to include in a unit agreement is acceptable as long as it does not adversely affect Federal/lndian lands or the authorized officer's authority and responsibilities (see 43 CFR 3181.4.) Any required State approval or concurrence should be obtained prior to submission of the executed agreement to the authorized officer for approval. An example of suggested language which illustrates the kind of State land provisions that may be incorporated in the model Federal form of unit agreement is provided in Illustration 8 of Handbook H-3180-1.

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Glossary of Terms

- A -

authorized officer: any employee of the Bureau of Land Management authorized to perform the duties described herein.

automatic elimination: all lands committed to a unit agreement that are not entitled to be in a participating area on or before the time specified by the agreement are automatically eliminated from the unit agreement, effective as of that date. Generally, the agreement provides that automatic elimination may be deferred for an additional, specified period by the conduct of additional drilling operations on lands not then entitled to participation.

- B -

basic royalty: the royalty reserved by a lessor when it issues an oil and gas lease.

- J -

joinder: a legal instrument which, when executed, commits the interests of the signatory party to the unit agreement and, in the case of a working interest owner, to the unit operating agreement.

- O -

obligation well: a well that must be drilled in order to prevent the invalidation of the unit agreement or a well that must be drilled in order to prevent the automatic elimination of lands in accordance with Section 2(e) of the unit agreement (i.e., those lands not entitled to be in a participating area on the fifth anniversary of the initial participating area).

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- P -

production in paying quantities:

1. lease basis: a well with sufficient production capacity to recover the cost of day-to-day operating expenses with a profit, no matter how small.

2. unit basis: a well with sufficient production capacity to return a reasonable profit over the cost of drilling, equipping, completing, and operating it (Section 9 of the model unit agreement, 43 CFR 3186.1).

- S -

segregation: the separation of a Federal lease into two individual leases as a result of unitization. Any lease that covers lands within and lands outside a unit area and that is committed to a unit agreement shall be segregated into separate leases, as of the effective date of unitization, with one lease covering the lands committed to the unit agreement and the other the lands not so committed (43 CFR 3107.3-2). For additional guidance on partially committed leases see Handbook H-3180-1.

1. vertical segregation: the original lease is segregated vertically at the unit boundary. Usually the original lease number is retained for the unitized lands committed to the plan, and the new lease number embraces the nonunitized lands outside the unit boundary. Both leases include all formations from the grassroots to basement rock.

2. horizontal segregation: the original lease is segregated horizontally from its noncommitted portion within the unit boundary. The original lease retains the lands within the unit area, but only as to the specific interval unitized. The new lease includes the lands within the unit area as to the interval or intervals not unitized and, as applicable, all lands and all formations outside the unit area.

   Note: As a matter of BLM policy, horizontal segregation is discouraged and should be avoided whenever possible. Horizontal segregation may be averted if the unit operator furnishes a statement that it is not the intent of the signatory parties that horizontal segregation occur as a result of the unitization.

subsequent test well: a well that must be drilled in order to prevent the automatic termination of the unit agreement.

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General Flowchart for Administration of Units

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Detail Flowchart for Administration of Units

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